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Wheat Trade Drops in 2003, but Forecast to Recover 2003

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Report Highlights:

The first half of 2003 has been a turbulent time for the wheat industry in Venezuela. The exchange controls and import restrictions put in place by the GOV in January at the end of the two months national strike severely hampered business operations. Authorizations for dollars have now started to flow and companies are working down their backlog of debt but they are very cautious about future purchases. Concerns about a currency devaluation make companies hesitant to buy unless they can lock in currency at the official rate. Consumption and imports are forecast down in 2002/03, but for 2003/04 Post forecast an increase in wheat imports to 1.3 million tons, mainly to allow some rebuilding in the depleted stock levels. Demand for wheat and wheat products could go much higher if the economy recovers.

Includes PSD changes: Yes
Includes Trade Matrix: No
Unscheduled Report
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PSD Table						
Country	Venezuela					
Commodity	Wheat				(1000 HA)(1000 MT)	
	Revised	2002	Preliminary	2003	Forecast	2004
	Old	New	Old	New	Old	New
Market Year Begin		7/2001		7/2002		7/2003
Area Harvested	0	0	0	0		0
Beginning Stocks	50	50	70	97	50	37
Production	0	0	0	0	0	0
TOTAL Mkt. Yr. Imports	1310	1377	1200	1200	1200	1300
Jul-Jun Imports	1310	1377	1200	1200	1200	1300
Jul-Jun Import U.S.	558	442	500	502	560	560
TOTAL SUPPLY	1360	1427	1270	1297	1230	1337
TOTAL Mkt. Yr. Exports	30	30	0	20	0	0
Jul-Jun Exports	30	30	0	20	0	0
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	1260	1300	1220	1240	1220	1250
Ending Stocks	70	97	50	37	50	87
TOTAL DISTRIBUTION	1360	1427	1270	1297	1250	1337

Wheat Trade Drops in 2003, but Forecast to Recover in 2004

The first half of 2003 has been a turbulent time for the wheat industry in Venezuela. Heavily dependent on imports of wheat for domestic flour milling activities, the exchange controls and import restrictions put in place by the government in January at the end of the two-month national strike have severely hampered business operations.

When the exchange control commission, CADIVI, was established in January, most private sector analysts believed that foreign exchange transactions would begin flowing fairly normally within two to three months. However, it was not until the end of May that the first major disbursements of foreign exchange were made. The largest amounts to date have gone to the food and agriculture sector, since many basic food products are on the eligible list.

With a black market exchange rate at Bs. 2,500 to Bs. 3,000 to the dollar compared to the official rate of Bs. 1,600 to the dollar, it has been vital for most importers of basic foods to get access to dollars at the official rate. Many companies ran up large paper debts with suppliers in the interim in order to keep product flowing, but smaller companies often did not have that capability. Cargill of Venezuela, the second largest food company in the country, even took its case to the press in May warning of a need to temporarily close its operations in nine plants that employed 1,400 people if it did not get access to the dollars to purchase imported raw materials for food processing. Overall, sources estimate that the local milling industry may have accumulated over \$80 million in debt to grain exporters alone by the end of May, when foreign exchange finally started to flow.

Authorizations for dollars from CADIVI, and the liquidations from the Central Bank, have now started and companies are working down their backlog of debt, but they are very cautious about future purchases. Since the government could devalue the currency at any time, companies are hesitant to buy unless they can lock in currency at the official rate. In addition, the timely issuance of phytosanitary import permits has also become a problem, since the permits need to coincide with the CADIVI authorizations.

Spot Shortages Occurring

If the papers don't flow in time, loading of vessels can't be programmed, which could lead to more temporary shortages in the future. The problems with access to foreign exchange have contributed to spot shortages, mainly of flour for bread production. But these shortages have been of limited durations, and have not led to any protests as Venezuelan consumers are slowly becoming used to doing with less. Some bakers have brought in flour from Colombia to supplement their supplies, but sources indicate this was a limited quantity. In addition, the variety of pastas available in the market now are more limited, as mills go in and out of production mode depending upon flour availability. A list of the major mills and the products they produce is attached:

MAIN MILLERS

Company	Products
CARGILL de Venezuela	Pastas: Ronco, Milani, Mimesa, Fiorentina, Suprema, Ricoletto, Pastevi, Universal. Flour: Gold Medal, Mimesa, Blancaflor. Pizzas Ronco. Industrial products.*
MOLINARCA, Alfonso Rivas & Co.	Bakery line, cereals, starches. Pasta Barilla. Industrial products. *
MOCASA, Molinos Carabobo	Pastas Allegri. Bakery flour.
MOLVENCA, Molinos Venezolanos	Pastas Sindoni.
MOSACA, Empresas Polar	Pastas Primor. Bakery flour.
MOLGUACA, Molinos Guacara	Pastas La Sirena.
MOHICA, Molinos Hidalgo	Industrial products. * Bakery flour.
Molinos La Lucha	Flour and pastas.
TRIGALCA, Pastas CAPRI	Pastas Capri.

* Types of flour that they commercialize: Bakery flour, Sandwich flour, Cookie flour, Whole flour, Tiuna flour, Bran, Second hand flour, Durum wheat semolina, wheat flour premixes, starches.

Other pasta brands traditionally produced in Venezuela include: Pastas America, Pastas Cairoli, Pastas Cirigliano, Pastas Comisana, Pastas Eduardo, Pastas La Parmigiana, Pastas Rosana, Susansa and Gisela Pastas Ricardo, as well as other artisan brands.

The Venezuelan government has also imported limited quantities of wheat flour to be handled through their separate food distribution channels. The major GOV purchase was approximately 6,000 tons of wheat flour that was Cuban origin, but milled in Italy. This product was distributed by Mercal to various bakeries, but sources indicate that this product arrived without some of the usual additives that Venezuelan bakeries are accustomed to and has been difficult to market.

Demand is Also Down

These disruptions in the supply chain would have been more noticeable except for the fact that domestic demand is also down. The Venezuelan economy has suffered its sharpest downturn in over fifty years, with GDP falling 29 percent in the first quarter of the year. The unemployment figure stands between 15 and 20 percent, and inflation is currently estimated at 30 percent for the year. A recent survey by Datanalysis showed that 28 percent of Venezuelans were reducing their bread consumption, 10 percent were reducing pasta consumption, and 15 percent were reducing corn flour consumption.

In February, the government imposed price controls on basic products to keep them within the reach of the poor. In the case of bread and pasta, the prices set were essentially at the level of market prices at the time of the exchange control. For corn flour and rice the prices were set slightly lower than the prevailing price. Pasta in

particular has become relatively more expensive over the past year and a half, as can be seen by the attached tables. While this may also contribute to a slight reduction in pasta consumption, it still remains a preferred staple in many Venezuelan diets. When the expected increase in domestic corn prices occurs this fall, the current price advantage for corn flour is likely to disappear. At this time post is forecasting a drop of 5 percent in Venezuelan wheat consumption this year compared to last, mainly due to the economic problems.

PRICES FOR WHEAT PRODUCTS AND ALTERNATIVES IN BOLIVAR TERMS					
	Ave.Exchange	500 gr	kg	kg	kg
	Rate	Pasta	Bread	Rice	Corn Flour
Jan 02	761.55	358.95	1,327.67	570.94	548.8
Feb	884.21	371.11	1,387.16	583.84	554.83
Mar	947.22	436.55	1,546.06	627.74	594.19
Apr	876.54	464.34	1,625.73	665.20	636.31
May	965.48	473.94	1,683.43	672.56	640.84
Jun	1196.74	483.71	1,698.38	677.66	642.65
Jul	1328	547.39	1,771.34	698.74	644.3
Aug	1373	618.19	1,814.56	736.18	685.73
Sep	1457.2	641.05	1,826.20	807.87	764.55
Oct	1452.32	667.42	1,876.39	872.50	768.18
Nov	1366.6	690.09	1,913.49	943.87	765.71
Dec 02	1700	695.86	1,912.27	958.74	764.46
Jan 03	1800	725.31	1,988.06	1,020.86	772.79
Feb 03	1600	837.77	2,118.49	1,088.37	888.73
Mar 03	1600	811.24	2,027.14	944.92	756.87
Apr 03	1600	815.43	2,122.93	941.89	749.92
May 03	1600	816.87	2,159.38	953.14	749.74
% Change*		127%	62%	66%	36%

Source: INE & BCV

*Between Jan 02 and May 03

PRICES FOR WHEAT PRODUCTS AND ALTERNATIVES IN DOLLAR TERMS					
	Ave.Exchange	500 gr	kg	kg	kg
	Rate	Pasta	Bread	Rice	Corn Flour
Jan 02	761.55	0.47	1.74	0.75	0.72
Feb	884.21	0.42	1.57	0.66	0.62
Mar	947.22	0.46	1.63	0.66	0.59
Apr	876.54	0.53	1.85	0.76	0.68
May	965.48	0.49	1.74	0.70	0.66
Jun	1,196.74	0.40	1.42	0.57	0.54
Jul	1,328.98	0.41	1.33	0.53	0.48
Aug	1,373.93	0.45	1.32	0.54	0.47
Sep	1,457.20	0.44	1.25	0.55	0.47
Oct	1,452.32	0.46	1.29	0.60	0.53
Nov	1,366.60	0.50	1.40	0.69	0.56
Dec	1,700.00	0.45	1.12	0.56	0.45
Jan 03	1,800.00	0.40	1.10	0.57	0.43
Feb	1,600.00	0.52	1.32	0.68	0.56
Mar	1,600.00	0.51	1.27	0.59	0.47
Apr	1,600.00	0.51	1.33	0.59	0.47
May	1,600.00	0.51	1.35	0.60	0.47
% Change*		8%	-23%	-20%	-35%

Source: INE & BCV

*Between Jan 02 and May 03

Imports Expected to Rebound in 2003/04

Trade statistics are increasingly difficult to obtain in Venezuela, and often vary significantly from "exporter to" data. In the case of wheat, since Canada and the United States are the two major suppliers, at this time we are revising our trade estimates and basing them on "exporter to" data. Those sources indicate higher than previously estimated imports for 2001/02 which are now reflected in the revised PS&D. For 2002/03, with "exporter to" data available through May, imports will easily reach above 1.2 million tons. In addition, the data demonstrates a strengthening in the US market share of the Venezuelan wheat market at this time as shown in the following table.

Wheat Exports to Venezuela (TMT)		
	2001/02	2002/03 (July -May)
U.S.	442	502
Canada	895	694
Total	1,337	1,196

Source: U.S. and Canadian export statistics

For 2003/04 post forecasts an increase in wheat imports to 1.3 million tons, mainly to allow some rebuilding in the depleted stock levels. Demand for wheat and wheat products could go much higher if the economy recovers. However, all trade flows at this time are heavily dependent upon both access to foreign exchange and readily available import permits, neither of which have been easy to come by in the first half of the year.

Traditionally some wheat based products used to be exported to neighboring Caribbean islands, but exports during the first half of this year have not been made due to the shortage of wheat. However, despite the problems with the wheat supply, some wheat based products are being deviated to Colombia. The exchange control added to the price control have favored the unofficial trade with Colombia. This scenario will likely to continue until either the exchange rate is floated or the domestic prices increase.